

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02  
CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04  
CEA-01 L-03 H-01 PA-01 PRS-01 /085 W  
-----160953Z 060407 /15

R 160616Z FEB 77

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 1783

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E.O. 11652: N/A

TAGS: ECON, EFIN, EG

SUBJECT: REACTION TO NEW TAX MEASURES

REF: CAIRO 2392

1. REQUIREMENT FOR DECLARATION OF ASSETS HAS REPORTEDLY CAUSED SOME DISLOCATIONS IN EGYPTIAN FINANCIAL PICTURE (REFTEL) BUT MAGNITUDE AND -- PARTICULARLY -- DURATION OF THE PROBLEM ARE NOT YET CLEAR. INITIAL ACTIVITY APPEARS TO HAVE TAKEN PLACE AS RESULT OF JANUARY RIOTS, AND CONSISTED OF FAIRLY SIZEABLE WITHDRAWALS OF CASH FROM ALL BANKS. THIS WAS FOLLOWED BY A RELATIVE RETURN OF CONFIDENCE AND THEREFORE DEPOSITS, BUT WE ARE TOLD THAT AMOUNTS BROUGHT BACK WERE SMALLER THAN THOSE TAKEN OUT, EXCEPT IN CASE OF ARAB INTERNATIONAL BANK (AIB), SEE BELOW.

2. SECOND SURGE OF ACTIVITY WAS RESULT OF SADAT'S DECREE ON WEALTH, WHICH ALSO LED TO SIZEABLE WITHDRAWALS. BANKING CONTACTS NOW TEND TO CHARACTERIZE RUN AS OF SEEMINGLY TRANSITORY SIGNIFICANCE, HOWEVER, DESPITE EARLIER EXPRESSED VIEWS. WITHDRAWALS WERE TEN TO FIFTEEN PERCENT HIGHER THAN EXPECTED, BUT TOTAL SUMS ARE CONSIDERED RELATIVELY MINOR. BANKERS

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SEE WITHDRAWALS AS EARLY UNEASY REACTION OF EGYPTIANS TO UNCERTAINTIES OF NEW WEALTH DECLARATION, BUT NOT YET AS A SIGN OF FEAR.

3. INTERESTING WRINKLE IS POSSIBILITY THAT A GOODLY SHARE OF THE CASH THAT IS BEING WITHDRAWN MAY BE LEAVING THE COUNTRY (OR AT LEAST THE ECONOMY), SINCE THERE ARE SIGNS

THAT DEPOSITS ARE GOING RAPIDLY UP AT AIB, A BANK THAT OPERATES OUTSIDE THE CONTROL OF THE GOE AND IS NOT SUBJECT TO EGYPTIAN LAWS. WE ALSO HEAR THAT REQUESTS FOR TRANSFER OF FUNDS TO OTHER COUNTRIES ARE RUNNING HIGH, THE BLACK MARKET RATE FOR THE DOLLAR IS UP TO LE 0.76 FROM 0.72, AND THE PRICE OF GOLD, AS REPORTED REFTEL, REMAINS WELL ABOVE ITS EARLIER PRICES. RECENT CHANGES IN THE FOREIGN EXCHANGE LAWS AND REGULATIONS HAVE NOT HELPED IN THIS INSTANCE EITHER, SINCE CAPITAL FLIGHT WAS MADE EASIER AS THE COST OF ENCOURAGING CAPITAL INFLOW.

4. COMMENT. WE HEAR REQUIREMENT FOR DECLARATION IS BEING INTERPRETED AS APPLYING TO EGYPTIAN NATIONALS ONLY, BUT EXPLICIT GUIDELINES ARE LACKING AS YET. MINJUSTICE, IN ALMOST UNSEEMLY HASTE, REPORTEDLY HAS DRAFTED AMENDMENTS TO PENAL CODE INCORPORATING PUNISHMENT PROVISIONS FOR FAILURE TO COMPLY WITH REQUIREMENT. DECLARATIONS ARE TO BE MADE TO MINFIN TAX ADMINISTRATION EVERY FIVE YEARS, VICE THREE YEARS, AS EARLIER REPORTED. FEW OTHER DETAILS ARE AVAILABLE, HOWEVER.

EILTS

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## Message Attributes

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**Disposition Date:** 22 May 2009  
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